Registered no: 803368

A Sykes (Dorlux) Limited

Annual report

for the year ended 26 September 1998

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A Sykes (Dorlux) Limited

Directors and advisers

Non executive director

Chairman	R W Martin

Executive directors

Managing director	P G Hewitt
Sales director - national accounts	C M Williams
Purchasing director	R T Trueman
Operations director	N G W Petty
Finance director	J W Whiteley

Registered office	Club Lane Ovenden HALIFAX HX2 8DD
Auditors	PricewaterhouseCoopers Benson House 33 Wellington Street LEEDS LS1 4JP
Bankers	Midland Bank plc 2 Cloth Hall Court HUDDERSFIELD HD1 2ES

Directors' report
for the year ended 26 September 1998

The directors present their report and the audited financial statements for the year ended 26 September 1998.

Principal activities

The profit and loss account for the year is set out on page 5.

The principal activities of the company remain that of the manufacture of divan beds and mattresses.

Review of business and future developments

The change in strategic direction at the beginning of the year has had a positive effect and the results for the year are most satisfactory.

This has given the Board the confidence to continue its aggressive redevelopment plans for the factory, offices and showroom.

These changes should result in positive benefits in the coming year.

Dividends

The directors have declared a dividend on the preference shares as described in the articles of association. The directors do not recommend the payment of a dividend on the ordinary shares.

Directors

The directors of the company at 26 September 1998, all of whom have been directors for the whole of the year ended on that date, unless where stated, were:

R W Martin
P G Hewitt
C M Williams
R T Trueman
N G W Petty
J W Whiteley

Mr A I Sykes who was a director of the company at the start of the year resigned on 31 March 1998.

In accordance with the articles of association, the directors are not required to retire by rotation.

Directors' interests in shares of the company

No director at 26 September 1998 had an interest in shares of the company.

Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 26 September 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Year 2000

The Year 2000 issue, which stems from computer programs written using two digits rather than four to define the applicable year, could result in processing faults on the change of century, producing a wide range of consequences.

The company has conducted a risk-based review of its computer systems to identify those which could be affected and is replacing or upgrading the affected systems. All business critical work is due to be completed shortly at no significant additional cost.

The Euro

The company's computer systems will be able to do business in the Euro after it is introduced in some countries on 1 January 1999.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998 following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the annual general meeting.

By order of the board

J W Whiteley

J W Whiteley
Director
22 December 1998

Report of the auditors to the members of A Sykes (Dorlux) Limited

We have audited the financial statements on pages 5 to 16 which have been prepared in accordance with the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 26 September 1998 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Leeds
22 December 1998

Profit and loss account for the year ended 26 September 1998

	Notes	1998 Total £'000	1997 Before exceptional reorganisation costs £'000	1997 Exceptional reorganisation costs (note 7) £'000	1997 Total £'000
Turnover	2	**15,757**	14,389	-	14,389
Cost of sales		**11,341**	10,354	119	10,473
Gross profit		**4,416**	4,035	119	3,916
Distribution costs		**1,474**	1,394	185	1,579
Administrative expenses		**2,184**	1,951	25	1,976
Operating profit		**758**	690	329	361
Interest payable and similar charges	5	**28**			22
Profit on ordinary activities before taxation	6	**730**			339
Tax on profit on ordinary activities	8	**1**			4
Profit for the year		**729**			335
Dividends on non-equity shares	9	**4**			16
Retained profit for the year	16	**725**			319

All of the trading during the year related to continuing operations.

The company has no recognised gains and losses other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

Balance sheet at 26 September 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	10	1,858	1,537
Current assets			
Stocks	11	778	738
Debtors	12	1,620	2,232
Cash at bank and in hand		4	3
		2,402	2,973
Creditors: amounts falling due within one year	13	2,769	3,471
Net current liabilities		(367)	(498)
Net assets		1,491	1,039
Capital and reserves			
Called up share capital	15	18	139
Capital redemption reserve	16	362	241
Profit and loss account	16	1,111	659
		1,491	1,039
Equity shareholders' funds		1,491	918
Non-equity shareholders' funds		-	121
Total shareholders' funds	17	1,491	1,039

The financial statements on pages 5 to 16 were approved by the board of directors on 22 December 1998 and were signed on its behalf by:

P G Hewitt
Director

A Sykes (Dorlux) Limited

Cash flow statement
for the year ended 26 September 1998

	Notes	1998 £'000	1997 £'000
Net cash inflow from operating activities	18	**1,267**	516
Returns on investments and servicing of finance			
Non-equity dividends paid		**(20)**	(28)
Interest paid		**(28)**	(22)
Net cash outflow from returns on investments and servicing of finance		**(48)**	(50)
Taxation			
Corporation tax paid		**(5)**	(7)
Net cash outflow from taxation		**(5)**	(7)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(576)**	(746)
Sale of tangible fixed assets		**15**	30
Net cash outflow from investing activities		**(561)**	(716)
Acquisition			
Purchase of business	16	**(152)**	-
Net cash inflow/(outflow) before financing		**501**	(257)
Financing			
Redemption of preference shares		**(121)**	(121)
Net cash outflow from financing		**(121)**	(121)
Increase/(decrease) in cash in the period	19	**380**	(378)

Notes to the financial statements for the year ended 26 September 1998

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Freehold buildings	2
Plant and equipment	10-20

Leasehold property is written off over the period of the lease.

Turnover

Turnover, which excludes both value added tax and trade discounts, represents the invoiced value of goods and services supplied.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Provision is made where necessary for obsolete, slow moving and defective stocks.

Goodwill

Purchased goodwill which has arisen on the acquisition of a business is written off immediately against reserves.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that an asset or liability will crystallise.

Foreign currency translation

Transactions denominated in a foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated into sterling at the year end exchange rates. Exchange gains and losses are dealt with in the profit and loss account.

Pension scheme

The company operates three defined contribution pension schemes. The company's contributions to these schemes are as specified by the rules of the schemes and are charged to the profit and loss account as incurred.

The company also operates a defined benefit scheme which provides benefits based on final pensionable salaries. The company's pension expense for this scheme is charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company. The contribution rate is determined by an independent qualified actuary at intervals not exceeding three years using the projected unit method.

The assets of all four schemes are held separately from those of the company in independently administered funds.

The company provides no other post retirement benefits to its employees.

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

2 Turnover

Turnover, which excludes both value added tax and trade discounts, consists entirely of sales made in the United Kingdom.

3 Directors' emoluments

	1998 £	1997 £
Fees paid to a company for the services of the non-executive Chairman	18,000	12,000
Fees and other emoluments (including benefits in kind)	383,730	362,628
Pension contributions	40,780	31,192
	442,510	405,820

Retirement benefits are accruing to 5 of the directors under the company's defined contribution schemes.

Fees and other emoluments (excluding pension contributions) include amounts paid to:

	1998 £	1997 £
The highest paid director	**144,350**	77,301

4 Employee information

The average weekly number of persons employed by the company during the year, including executive directors, is analysed below:

	1998 Number	1997 Number
Production	**192**	183
Selling and distribution	**34**	33
Administration	**23**	19
	249	235

	1998 £'000	1997 £'000
Staff costs (for the above persons)		
Wages and salaries	**3,901**	3,492
Social security costs	**371**	322
Other pension costs (see note 22)	**36**	73
	4,308	3,887

5 Interest payable and similar charges

Interest payable on sums wholly repayable within 5 years:

	1998 £'000	1997 £'000
Bank overdraft	**28**	22

6 Profit on ordinary activities before taxation

		1998 £'000	1997 £'000
Profit on ordinary activities before taxation is stated after crediting:			
Rent receivable		-	44
Profit on sale of fixed assets		-	30
And after charging:			
Loss on disposal of fixed assets		16	-
Auditors' remuneration	- in respect of the audit	15	14
	- fees for other services	4	60
Operating lease rentals	- plant and machinery	20	18
	- vehicles	84	824
	- land and buildings	180	180
Depreciation of tangible owned fixed assets		224	163

7 Exceptional reorganisation costs

In 1997 the company significantly reorganised its production and administration systems, and also negotiated a new distribution contract.

These exceptional reorganisation costs were declared separately from the normal trading costs and consisted of the following elements:

	Redundancy and severance £'000	Factory reorganisation £'000	Distribution reorganisation £'000	Total £'000
Cost of sales	83	36	-	119
Distribution costs	-	-	185	185
Administrative expenses	25	-	-	25
	108	36	185	329

8 Tax on profit on ordinary activities

	1998 £'000	1997 £'000
Corporation tax at 33% (1997: 33%)	-	-
Advance corporation tax not recoverable	1	4
	1	4

9 Dividends

	1998 £'000	1997 £'000
Non-equity shares:		
10% preference dividend paid (1997: proposed)	4	16

10 Tangible fixed assets

	Freehold buildings £'000	Leasehold property £'000	Plant and equipment £'000	Total £'000
Cost				
At 28 September 1997	191	50	4,158	4,399
Additions	77	-	499	576
Disposals	-	-	(82)	(82)
At 26 September 1998	**268**	**50**	**4,575**	**4,893**
Depreciation				
At 28 September 1997	13	14	2,835	2,862
Charge for year	4	2	218	224
Disposals	-	-	(51)	(51)
At 26 September 1998	**17**	**16**	**3,002**	**3,035**
Net book value				
At 26 September 1998	**251**	**34**	**1,573**	**1,858**
Net book value				
At 27 September 1997	178	36	1,323	1,537

At the year end the company had fixed assets with a cost of approximately £2.4 million (1997: £2.4 million) which had been written down to a nominal amount, although they were still in use.

11 Stocks

	1998 £'000	1997 £'000
Raw materials and consumables	379	428
Work in progress	341	224
Finished goods and goods for resale	58	86
	778	738

12 Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year		
Trade debtors	1,500	2,098
Prepayments and accrued income	120	134
	1,620	2,232

13 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Bank overdraft (see below)	221	600
Trade creditors (see below)	1,422	1,744
Advance corporation tax	-	4
Other taxation and social security	575	539
Accruals and deferred income	551	568
Dividends payable	-	16
	2,769	3,471

The bank overdraft is secured by a fixed and floating charge dated 29 December 1997 over all of the assets of the company.

Part of the amounts owing to trade creditors is or may be protected by suppliers by the reservation of legal title to the goods supplied and to the proceeds of their sale. The amount protected in this way depends on the legal interpretation of individual contracts and cannot readily be determined. In the opinion of the directors the amount concerned does not exceed £142,000.

14 Deferred taxation

The provision for deferred taxation, which represents the fully potential liability to deferred taxation, comprises:

	1998 £'000	1997 £'000
Excess of capital allowances over depreciation	120	89
Losses	(120)	(89)
	Nil	Nil

The company has no significant additional tax losses available.

15 Called up share capital

	10% non-cumulative redeemable preference shares of £1 each 1998	1997	Ordinary shares of £1 each 1998 and 1997
Authorised			
- value	**£362,000**	£362,000	**£20,000**
- number	**362,000**	362,000	**20,000**
Allotted, called up and fully paid			
- value	**Nil**	£121,000	**£18,333**
- number	**Nil**	121,000	**18,333**

The final tranche of preference shares was redeemed on 31 January 1998 out of cash flows generated within the business.

16 Reserves

	Capital redemption reserve £'000	Profit and loss £'000
At 28 September 1997	241	659
Goodwill written off	-	(152)
Retained profit for the year	-	725
Redemption of preference shares	121	(121)
At 26 September 1998	**362**	**1,111**

During the year the company purchased a division of a competitors business for £152,000. The goodwill arising on this transaction has been written off directly against reserves.

17 Reconciliation of movement in shareholders' funds

	1998 £'000	1997 £'000
Profit for the financial year	**725**	319
Goodwill written off	**(152)**	-
Redemption of preference shares	**(121)**	(121)
Net addition to shareholders' funds	**452**	198
Opening shareholders' funds	**1,039**	841
Closing shareholders' funds	**1,491**	1,039

18 Reconciliation of operating profit to net cash inflow from operating activities

	1998 £'000	1997 £'000
Operating profit	**758**	361
Depreciation of tangible fixed assets	**224**	163
Loss/(profit) on sale of tangible fixed assets	**16**	(30)
Increase in stocks	**(40)**	(19)
Decrease in trade debtors	**598**	299
Decrease/(increase) in prepayments and accrued income	**14**	(15)
(Decrease) in trade creditors	**(322)**	(508)
Increase in other taxation and social security	**36**	62
(Decrease)/increase in accruals and deferred income	**(17)**	203
Net cash inflow from operating activities	**1,267**	516

19 Reconciliation of net cash flow to movement in net debt

	1998 £'000	1997 £'000
Changes during the year		
At 28 September	**(597)**	(219)
Net cash inflow/(outflow)	**380**	(378)
At 26 September	**(217)**	(597)

	1998 £'000	1998 Change in year £'000	1997 £'000	1997 Change in year £'000	1996 £'000
Analysis of net debt					
Cash at bank and in hand	**4**	**1**	3	(2)	5
Bank overdrafts	**(221)**	**379**	(600)	(376)	(224)
At 26 September	**(217)**	**380**	(597)	(378)	(219)

20 Capital commitments

The company had contracted for capital commitments at 26 September 1998 of £222,744 (1997: £257,500).

21 Financial commitments

At 26 September 1998 the company had annual commitments under non-cancellable operating leases as follows:

	1998		1997	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Date of lease termination				
Within one year	-	3	-	12
More than one year but within five years	-	101	-	78
After five years	180	-	180	-
	180	104	180	90

22 Pensions

The total pension cost for the company was £35,935 (1997: £73,023) arising from its participation in three defined contribution schemes and a defined benefits scheme. The assets of these schemes are held separately from those of the company. The pension cost of the defined benefits scheme is assessed in accordance with advice of an independent qualified actuary using the projected unit method.

The latest actuarial valuation of the defined benefit scheme was dated 9 June 1998 and related to service by members up to 30 June 1997. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment returns would be 8.5% per annum compound and that salary increases would average 7% per annum compound.

The actuarial valuation showed that the market value of the defined benefit scheme's assets was £1,197,000 at 1 July 1997 and that the actuarial value of those assets represented 100% of the benefits that had accrued to members who have retired and 146% for other members after allowing for expected future increases in earnings. The actuary has recommended that in view of the proposed pension funds legislation changes, no decrease be made to the contribution rate to reduce the surplus.

23 Ultimate controlling party

Having regard to the disposition of the trusts which own the ordinary shares of the company, in the opinion of the directors, the company has no ultimate controlling party.